



JOHN NAIMO  
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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April 30, 2015

TO: Supervisor Michael D. Antonovich, Mayor  
Supervisor Hilda L. Solis  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe

FROM: John Naimo   
Auditor-Controller

SUBJECT: **SOUTH BAY FAMILY HEALTH CARE – A DEPARTMENT OF PUBLIC  
HEALTH DIVISION OF HIV AND STD PROGRAMS PROVIDER –  
CONTRACT COMPLIANCE REVIEW**

We completed a contract compliance review of South Bay Family Health Care (South Bay or Agency), which included a sample of transactions from Contract Years (CY) 2012-13 and 2013-14. The Department of Public Health Division of HIV and STD Programs (DHSP) contracts with South Bay to provide HIV/AIDS mental health psychotherapy and case management services.

The purpose of our review was to determine whether South Bay provided the services outlined in their County contracts and appropriately spent DHSP Program funds. We also evaluated the adequacy of the Agency's financial records, internal controls, and compliance with their contract and other applicable guidelines.

At the time of our review, DHSP had two cost-reimbursement contracts with South Bay and paid the Agency approximately \$169,000 during CY 2012-13 and \$100,700 during CY 2013-14. South Bay provides services to clients residing in the Fourth Supervisorial District.

**Results of Review**

South Bay properly recorded revenue in their financial records and deposited DHSP cash receipts timely. In addition, South Bay prepared their Cost Allocation Plan in compliance with their County contracts and their expenditures were allowable, properly

documented, and accurately billed. However, South Bay self-disclosed in their notes to the financial statements for the period ended June 30, 2013, going concern issues arising from cash flow problems as a result of ongoing losses. According to the note, South Bay reported that their liquidity ratios weakened during the year ended June 30, 2013. The financial statements also reflect an \$850,829 decrease in net assets for the same period.

Additionally, South Bay did not meet their March 31, 2015 due date for submission of their Single Audit. The Office of Management and Budget (OMB) Circular A-133 and South Bay's County contracts require the Agency to submit their Single Audit Reports no later than nine months after the end of the audit period. South Bay's response indicates that their independent auditors are scheduled to perform their Single Audit in April 2015. As a result, South Bay will not be in compliance with OMB Circular A-133 or their County contracts.

Due to the going concern issues reported in their June 30, 2013 notes to their financial statements, coupled with their inability to comply with the Single Audit Report due date, DHSP should consider placing the Agency in the County's Contractor Alert Reporting Database (CARD). According to the CARD Manual, a contractor that has experienced financial, administrative, programmatic, or legal issues that affect their ability to comply with the contract requirements should be placed in CARD. Although South Bay's financial statement notes also described planned measures to improve financial performance, audited financial statements are still pending. In evaluating CARD placement, DHSP should seek evidence of improved financial conditions.

*South Bay's attached response indicates that their operations are continuing to improve and South Bay is projecting a small profit for the current fiscal year. As such, South Bay believes that it would be inappropriate to place the Agency in CARD.*

Details of our review, along with recommendations for corrective action, are attached.

### **Review of Report**

We discussed our report with South Bay and DHSP. South Bay's attached response indicates that they concurred with our findings and recommendations with the exception of their placement in CARD. DHSP management indicated that they will ensure that the findings and recommendations are resolved and implemented.

We thank South Bay management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:DC:EB:yp

Attachments

c: Sachi A. Hamai, Interim Chief Executive Officer  
Cynthia A. Harding, M.P.H., Interim Director, Department of Public Health  
Trish Anderson, Board Chair, South Bay Family Health Care  
Jann Hamilton Lee, Chief Executive Officer, South Bay Family Health Care  
Public Information Office  
Audit Committee

**SOUTH BAY FAMILY HEALTH CARE  
DIVISION OF HIV AND STD PROGRAMS  
CONTRACT COMPLIANCE REVIEW  
CONTRACT YEARS 2012-13 AND 2013-14**

**FINANCIAL VIABILITY**

**Objective**

Determine whether South Bay Family Health Care (South Bay or Agency) is financially viable and maintains sufficient working capital to provide adequate services under their Department of Public Health Division of HIV and STD Programs (DHSP) contracts.

**Verification**

We reviewed the Agency's audited financial statements ending June 30, 2012 and 2013.

**Results**

South Bay self-disclosed in their notes to their financial statements for the period ended June 30, 2013, going concern issues arising from cash flow problems as a result of ongoing losses. According to the note, South Bay reported that their liquidity ratios weakened during the year ended June 30, 2013. The financial statements also reflect an \$850,829 decrease in net assets for the same period.

In addition, the Office of Management and Budget (OMB) Circular A-133 and South Bay's County contracts require the Agency to submit their Single Audit Reports no later than nine months after the end of the audit period. Therefore, South Bay should have submitted their Single Audit Report for the period ended June 30, 2014 to DHSP by March 31, 2015. South Bay's response indicates that their independent auditors are scheduled to perform their Single Audit in April 2015. As a result, South Bay will not be in compliance with OMB Circular A-133 or their County contracts.

Due to the going concern issues reported in their June 30, 2013 notes to their financial statements, coupled with their inability to comply with the Single Audit Report due date, DHSP should consider placing the Agency in the County's Contractor Alert Reporting Database (CARD). According to the CARD Manual, a contractor that has experienced financial, administrative, programmatic, or legal issues that affect their ability to comply with the contract requirements should be placed in CARD. Although South Bay's financial statement notes also described planned measures to improve financial performance, audited financial statements are still pending. In evaluating CARD placement, DHSP should seek evidence of improved financial conditions.

**Recommendations**

1. Department of Public Health Division of HIV and STD Programs management consider placing South Bay Family Health Care in the County's Contractor Alert Reporting Database.
2. South Bay Family Health Care management submit their Single Audit Reports timely.

**ELIGIBILITY/PROGRAM SERVICES****Objective**

Determine whether South Bay provided services to individuals who met the DHSP Ryan White Comprehensive AIDS Resources Emergency Act (Ryan White) eligibility requirements. In addition, determine whether South Bay provided the services required by their County contracts and DHSP guidelines, clients received the billed services, and the Agency collected fees from eligible clients in accordance with their County contracts.

**Verification**

We reviewed the case files for ten (4%) of the 250 clients who received services during February 2014 for documentation to confirm their eligibility for Ryan White services. We also determined whether the Agency collected fees from clients in accordance with the Agency's approved client fee schedule.

**Results**

South Bay had documentation to support the eligibility of the ten clients reviewed. However, South Bay did not obtain approval from DHSP for their client fee schedule as required by Paragraph 48 of their County contract's Additional Provisions.

**Recommendation**

3. South Bay Family Health Care management submit their client fee schedule to the Department of Public Health for approval.

**CASH/REVENUE****Objective**

Determine whether South Bay properly recorded revenue in their financial records, deposited cash receipts into their bank accounts timely, and that bank account reconciliations were reviewed and approved by Agency management timely.

**Verification**

We interviewed South Bay management, and reviewed their financial records and February 2014 bank reconciliations for two bank accounts.

**Results**

South Bay properly recorded revenue in their financial records, deposited DHSP cash receipts timely, and bank reconciliations were reviewed and approved by Agency management timely.

**Recommendation**

**None.**

**EXPENDITURES/COST ALLOCATION PLAN****Objective**

Determine whether South Bay's Cost Allocation Plan (Plan) complied with their County contracts, and if expenditures charged to DHSP were allowable, properly documented, and accurately billed.

**Verification**

We reviewed the Agency's Plan and their financial records for five non-payroll expenditures, totaling \$1,959, that the Agency charged to DHSP from March 2013 to February 2014. We also interviewed Agency personnel.

**Results**

South Bay prepared their Plan in compliance with their County contracts and their expenditures were allowable, properly documented, and accurately billed.

**Recommendation**

**None.**

**PAYROLL AND PERSONNEL****Objective**

Determine whether South Bay appropriately charged payroll costs to DHSP, and maintained personnel files as required.

**Verification**

We compared the payroll costs for two employees, totaling \$4,647 for February 2014, to the Agency's payroll records and time reports. We also interviewed staff, and reviewed the personnel file for one employee.

**Results**

South Bay appropriately charged payroll costs to DHSP and maintained the personnel file as required.

**Recommendation**

None.

**COST REPORTS****Objective**

Determine whether South Bay's Contract Year (CY) 2012-13 Cost Reports reconciled to their financial records.

**Verification**

We compared the Agency's CY 2012-13 Cost Reports to their financial records.

**Results**

South Bay's CY 2012-13 Cost Reports reconciled to their financial records.

**Recommendation**

None.



March 31, 2015

Mr. John Naimo, Auditor-Controller  
Department of Auditor-Controller  
Countywide Contract Monitoring Division  
350 S. Figueroa Street, 8<sup>th</sup> Floor  
Los Angeles, California 90071

Attention: Yoon Park

Subject: South Bay Family Health Care – A Department of Public Health Division  
of HIV and STD Programs Provider – Contract Compliance Review

Based on your contract compliance review of South Bay Family Health Care (South Bay or Agency), which included a sampling of transactions from Contract Years 2012-13 and 2013-14, your department issued a report dated in March 2015. Your covering letter highlights your significant finding which related to financial and cash flow issues and financial viability concerns (and your related recommendation that "DHP should consider placing the Agency in the County's Contractor Alert Reporting Database (CARD).

Our response to the findings and recommendations in the attachment to your letter are as follows:

**Financial Viability**

**Finding and recommendation**

The results of your review stated "South Bay's audited financial statements ending June 30 2013 reported going concern issues arising from cash flow problems as a result of ongoing losses", with your resulting recommendation that "Department of Public Health management consider placing the Agency in the County's Contractor Alert Reporting Database".

**South Bay's Response**

It should be noted that the independent auditor's report for the fiscal year ended June 30, 2013, was issued with a clean opinion. In effect, the auditor reported on the financial statements assuming South Bay will continue as a going concern. The auditor included in his Footnote T to his report, issues of concern which needed to be addressed by management, mainly the ongoing losses, days of cash on hand and current ratio. The footnote also listed corrective actions that management had already implemented or that were significantly underway to improve financial performance.



Almost a year and a half from the June 30, 2013 fiscal year end, South Bay is still operating and meeting its financial obligations. Management has continued to address and refine its corrective action plans to meet the changing needs and requirements of the health care environment.

South Bay's financial position and results of operations are continuing to improve. Based on operating results for the current fiscal year through February 28, 2015, South Bay is projecting a small profit for the current fiscal year. Cash flow from operations, after exclusion of depreciation expense of approximately \$240,000, will reflect an even higher improvement.

South Bay's Budget for fiscal year 2016, although still in the process of being finalized and then approved by the Board, will show further improvements in operating results and cash flow. This further improvement results from continued monitoring and revisions of our corrective action plan.

A Three Year Strategic Operating Plan is nearing completion, which will provide further enhancements to South Bay's operations, as well as a road map to improvement to be used by Management and the Board.

Considering the above, we believe it is inappropriate to place South Bay in the County's Contractor Alert Reporting Database, and request your removal of this recommendation.

#### **Billed Services/Eligibility**

##### **Finding and recommendation**

South Bay's client fee schedule was not approved by DHSP as required by Paragraph 48 of the County's contract's Additional Provisions. Recommendation: South Bay management submit their client fee schedule to the Department of Public Health for approval.

##### **South Bay's Response**

South Bay has already submitted the sliding fee schedule to DHSP, and is awaiting approval.

#### **Expenditures/Cost Allocation Plan**

##### **Finding and recommendation**

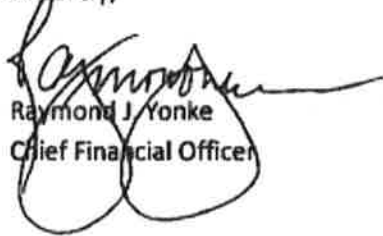
South Bay did not submit their Single Audit Report for the period ending June 30, 2013, on a timely basis. Recommendation: South Bay management submit the Agency's Single Audit Reports timely.

##### **South Bay's Response**

South Bay will work closely with its independent auditors to assure timely compliance in the future with the Single Audit Report filing requirements. For the latest fiscal year, the independent auditors are scheduled to perform their audit work during the week of April 6, 2015 and issue their report during April 2015.

We would appreciate your favorable consideration of our responses above. Please let me know if you have further questions regarding the above or need additional information.

Sincerely,



Raymond J. Yonke  
Chief Financial Officer